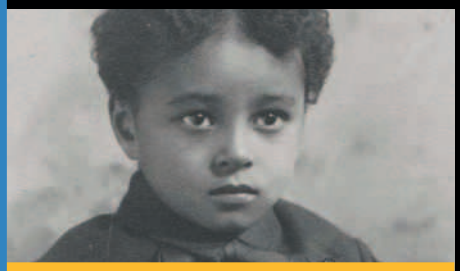
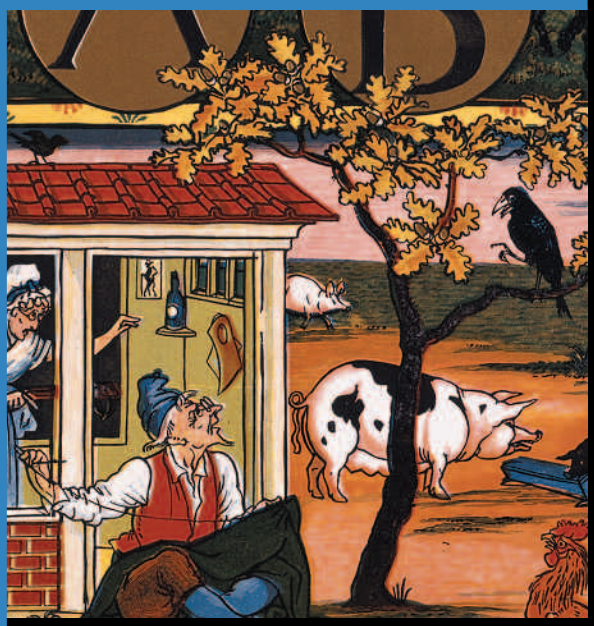
UCLA





2005-2006 ANNUAL FINANCIAL REPORT

When UCLA University Librarian Lawrence Clark Powell created the Library's Department of Special Collections in 1946, he specified that it should collect fine printing and rare books and manuscripts, but he also noted that its collections were "not tantamount to rarity" and should also include photographs, maps, postcards, recordings, printed ephemera and other supporting materials. In following those instructions, the UCLA Library has helped shape the collecting of rare books and research materials at public institutions around the world by collecting in areas not held by more established libraries and by adding new types of materials, such as screenplays and television scripts, architectural plans, and oral histories.

Today, the Library's rich, diverse special collections are held in four locations — the Arts Library Special Collections, the Louise M. Darling Biomedical Library History and Special Collections, the Music Library Special Collections and the Charles E. Young Research Library Special Collections — and now encompass animation cels, artists' books, business archives, drawings and prints, literary manuscripts, medical instruments, movie posters, museum objects, personal papers, rare books, printed and manuscript music scores, scripts, and many other unique types of material. The following pages feature images from and descriptions of just a few of the treasures in these special collections.

For more information, visit http://www2.library.ucla.edu/libraries/special.cfm

Courtesy UCLA Library

The largest private collection ever assembled of rare materials by and about modern dance pioneer Isadora Duncan (1877/78–1927), this collection of some 1,500 items includes among its highlights manuscripts in Duncan's hand (many unpublished) about dance, life, teaching, her artistic philosophy and her husband, the Russian poet Sergei Esinin; other writings, including a diary by stage designer Edward Gordon Craig, father of Duncan's first child, about his collaborations and relationship with Duncan; letters by Duncan's adopted daughter, Irma, about her mother; and hundreds of sculptures, sketches, watercolors and other artworks by 13 artists. Housed in the Charles E. Young Research Library Department of Special Collections, the collection, built by Los Angeles attorney Howard Holtzman over a 30-year period, was purchased with funds given by longtime UCLA donor Joan Palevsky only 18 days before her death in March 2006.

The collection contains 19 original drawings by Abraham Walkowitz (1880–1965); shown are three undated drawings in ink, pencil and watercolor of Duncan dancing.

Also shown is a photograph taken by Duncan's brother Raymond (1874–1966) around 1903 on their first trip to Greece. Duncan is standing at the base of the Erechtheum on the Acropolis in Athens. Ancient Greek culture inspired both her dancing and her costumes.

CONTENTS

01 Highlights

02 Letter from Acting Chancellor Norman Abrams

04 Management's Discussion and Analysis

24 Campaign UCLA

26 Financial Statements

32 Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, LOS ANGELES

CAMPUS AND FINANCIAL HIGHLIGHTS

(dollars in thousands) — For Fiscal Years Ended June 30

	2006	2005
Enrollment - Fall Quarter		
Undergraduates	24,811	24,946
Graduates, and Interns and Residents	12,410	12,617
Employee Count		
Full-Time Equivalent (includes approximately 5,300 casuals and students)	27,124	27,191
Campus Land Area	419 acres	419 acres
OPERATING AND NONOPERATING REVENUE AND EXPENDITURES:		
Operating Revenue	$ 2,849,802	$ 2,731,691
Nonoperating Revenue (Core Activities)	744,531	676,699
	$ 3,594,333	$ 3,408,390
Operating Expense	$ 3,385,928	$ 3,319,166
Nonoperating Expense (Core Activities)	24,166	34,081
	$ 3,410,094	$ 3,353,247
Principal Sources of Operating Revenue:		
Student Tuition and Fees	$ 297,434	$ 283,964
Grants and Contracts	772,728	793,091
Sales and Services	1,694,902	1,610,751
Principal Sources of Nonoperating Revenue:		
State Educational Appropriations	$ 555,888	$ 534,214
Principal Operating Expenditures:		
Salaries and Wages	$ 1,789,945	$ 1,733,890
Benefits	369,690	340,206
Supplies and Materials	396,795	390,956
Other Operating Expenditures	511,563	538,008
TOTAL NET ASSETS:		
Total Current Assets	$ 1,633,818	$ 1,555,335
Total Noncurrent Assets	3,931,790	3,713,014
Total Current Liabilities	623,959	666,149
Total Noncurrent Liabilities	650,825	684,639
End of Year Net Assets	4,290,824	3,917,561

See Notes to Financial Statements.

letter from Acting Chancellor NORMAN ABRAMS

During 2005–2006, UCLA began to emerge from several years of severe state budget cuts. The fact that the University remained strong and poised for greatness despite the cuts attests to our sound fiscal management, as documented in this report. UCLA continued to advance its mission of education, research and service across the University and in the community, and to be one of the world's top research universities.

In fall 2005, we enrolled 4,422 new freshmen out of 42,227 applicants and more than 3,000 of the 13,189 transfer students who applied for undergraduate admission. In spring 2006, we awarded a record number of doctoral degrees — more than 700.

Our students' accomplishments continued to confirm both their academic ability and their dedication to making a difference in the world. Eight students wrote and published *Sweatshop Slaves: Asian Americans in the Garment Industry*, the first book to focus on the plight of these workers in Los Angeles. And 20 students taught English to immigrant day laborers twice a week as part of the Day Laborer Project.

Our first senior-class survey, with responses from 80 percent of the graduating class, revealed seniors' strong satisfaction with their academic experience, campus life and the intellectual challenges presented by the curriculum and the faculty.

UCLA undergraduates at all levels once again participated in the creation of new knowledge. Sixty percent of recent graduates of the College of Letters and Science engaged in some form of research or creative activity.

During 2005–2006, UCLA ranked second in the nation in the amount of research funding won by faculty through competitively awarded grants and contracts. UCLA faculty members also gained more recognition. Four received fellowships from the John Simon Guggenheim Memorial Foundation: Michael Heim, professor of Slavic languages and literatures; Jia-Ming Liu, professor of electrical engineering; Anthony Pagden, distinguished professor of political science; and Laurence C. Smith, professor of geography.

Edward Carreon, CARREON PHOTOGRAPHY

In our medical enterprise, construction of the Ronald Reagan UCLA Medical Center is nearly completed. And for the 17th consecutive year, UCLA Medical Center was named "Best in the West" by *U.S. News & World Report*, which also ranked it among the nation's top five hospitals.

The University's community engagement as part of UCLA in LA continued to grow, helping to improve the quality of life in Los Angeles while informing our own research and learning. This year, our Center for Community Partnerships established its 100th partnership in engaged scholarship, representing total funding of more than $2 million.

As we do every year, we recognized several outstanding people for their contributions to society. In 2006, we bestowed the University's highest honor, the UCLA Medal, on Robert Wilson, executive with Duckett-Wilson Development Co., and his wife, Marion Wilson, past president of Women and Philanthropy at UCLA; film producer Samuel Goldwyn Jr.; and Eli Broad, founder-chairman of SunAmerica Inc. and KB Home, and his wife, Edythe Broad.

On campus, more and more capital programs reflect UCLA's majestic architectural tradition. During this year, we completed construction on the Humanities Building and the Weyburn Terrace apartments, which accommodate more than 1,000 graduate students. (Today, half of all UCLA students live within a mile of campus.)

The UCLA Bruins still lead the nation with 99 NCAA championships and 120 total national championships, two of which belong to this year's men's volleyball and women's water polo teams. We are poised to celebrate the 100th title.

In December 2005, we concluded Campaign UCLA, the largest and most successful fund-raising effort in the history of higher education. The campaign raised more than $3 billion in private gifts and grants. These funds will make an enormous difference in meeting the needs of our growing campus through new facilities, enhanced academic programs, increased support for research and more. We are deeply grateful to the many individuals and institutions whose contributions made this campaign such a dramatic success.

In 2005–2006, the funds pledged toward our five-year Ensuring Academic Excellence initiative reached $168.4 million. The goal of the initiative is to raise $250 million to enable us to continue to attract and retain the finest faculty and students by establishing endowed chairs, scholarships and fellowships.

We take pride in UCLA's sustained leadership among institutions of higher learning, despite the fiscal constraints imposed upon public universities. We are confident that thoughtful and energetic stewardship, along with the generous support of alumni and friends, will enable UCLA to continue to define what a great university can be.

Norman Abrams
Acting Chancellor

letter from Acting Chancellor NORMAN ABRAMS

The objective of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2006, with selected comparative information for the year ended June 30, 2005. This discussion should be read in conjunction with the financial statements and the accompanying notes.

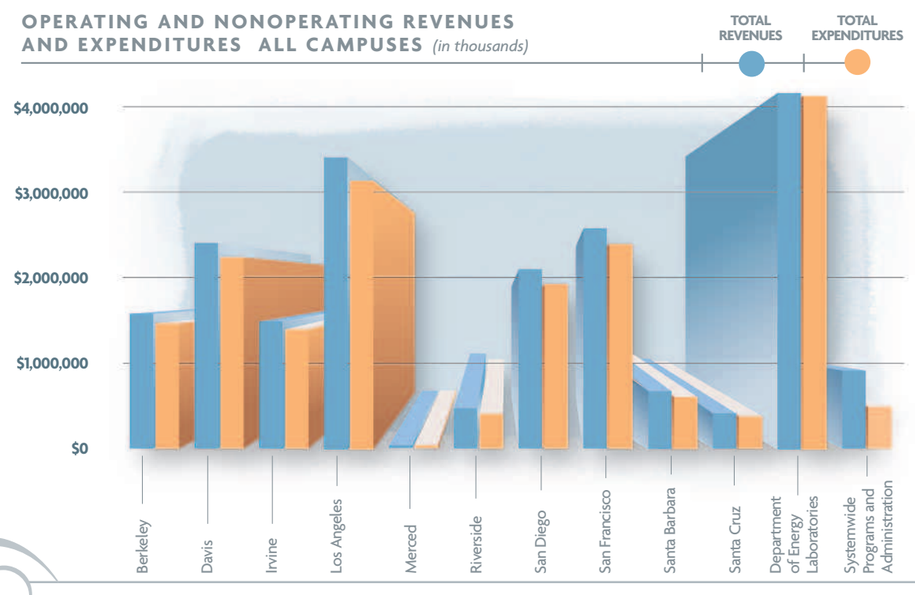
USING THIS ANNUAL REPORT

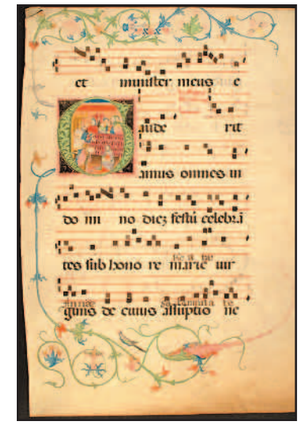
UCLA is one of 10 campuses within the University of California system. The UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board. The three basic financial statements in this report — the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows — encompass the UCLA campus and its discretely presented component, The UCLA Foundation. However, the MD&A and the Notes to Financial Statements focus only on the campus; information relating to The UCLA Foundation can be found in their separately issued financial statements.

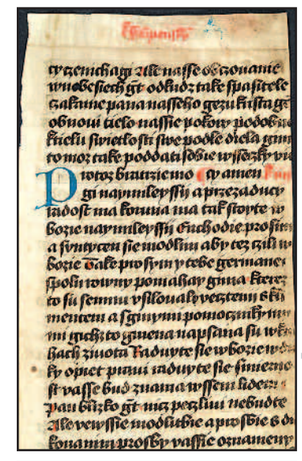
THE UNIVERSITY OF CALIFORNIA

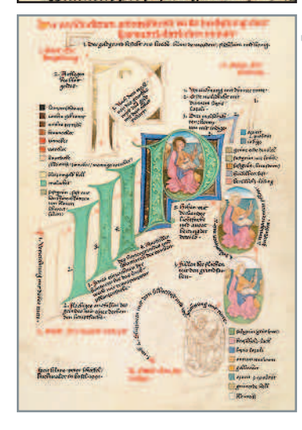
The University of California system (the University) is a public, state-supported institution. The University's financial statements for the University, the various campus foundations and the University of California Retirement System are presented as a discrete component of the state's general-purpose financial statements. The University encompasses 10 campuses, which include five medical schools and medical centers, three law schools and the statewide Division of Agricultural and Natural Resources. The University also operates and manages three national laboratories for the U.S. Department of Energy. The audited, consolidated financial statements of the University of California are available at http://www.ucop.edu/ucophome/busfin/reports.html

The following chart reflects the operating and nonoperating revenues and expenditures of the various campuses and laboratories, along with systemwide programs and administration, for the 2005–06 fiscal year:









Courtesy UCLA Library

Richard Rouse, UCLA professor emeritus of history, and his wife and frequent co-author, Mary, have built an extensive collection of medieval and Renaissance manuscripts, of which they have given the Charles E. Young Research Library Department of Special Collections the first installment. It contains items from Bohemia, England, France, Germany, the Netherlands and Spain, with texts in Latin, Czech, Dutch, French, German, Italian and Middle English. Ranging in origin from the ninth to the 17th century, with the majority coming from the period 1200–1500, the manuscripts cover an array of subjects, including history, law, medicine, music, pastoral care, philosophy, science and theology.

Above: This miniature by the Spanish Forger depicts a noblewoman receiving gifts. The anonymous forger, a prolific late 19th-/early 20th-century artist, successfully passed off his paintings and illuminations as genuine medieval and Renaissance originals, often working on parchment cut from medieval-period liturgical manuscripts to heighten the appearance of authenticity. In recent decades, his forgeries have become collectors' items in their own right.

Left (*top to bottom*): This leaf from a mid-15th-century illuminated Tyrolean antiphonal shows the introit for the Mass of the Assumption. The initial depicts the death of the Virgin, and the floral border decoration is reminiscent of the painting found in copies of the Gutenberg Bible and other early printed books.

This leaf from an early 15th-century manuscript of the New Testament in Czech contains part of Paul's letter to the Philippians. The Czech Hussites were strongly influenced by the English Wycliffite belief in the authority of the Bible, but far fewer scriptural manuscripts survive in Czech than in Middle English.

This page shows the three stages by which a modern illuminator would paint a historiated initial ("P") — from the gold ground to the green-patterned background to the final initial — and lists the vegetal and mineral pigments used in each campaign. It was created by Klaus-Peter Schaffel in Binnigen, Switzerland, in 1991, but the working procedures of a medieval illuminator cannot have been much different.

THE LOS ANGELES CAMPUS OF THE UNIVERSITY OF CALIFORNIA

UCLA was founded in 1919 and is financially the largest campus in the 10-campus University of California system, with an annual budget that exceeds $3.6 billion. The financial statements included in this annual report encompass the following:

Campus – The Los Angeles campus spans 419 acres in Westwood and is devoted to undergraduate and graduate scholarship serving more than 37,200 students in the following schools:

COLLEGE OF LETTERS AND SCIENCE
- Humanities
- Life Sciences
- Physical Sciences
- Social Sciences
- Honors and Undergraduate Programs
- UCLA International Institute

PROFESSIONAL SCHOOLS
- School of the Arts and Architecture
- School of Dentistry
- Graduate School of Education & Information Studies
- The Henry Samueli School of Engineering and Applied Science
- School of Law
- UCLA Anderson School of Management
- The David Geffen School of Medicine at UCLA
- School of Nursing
- School of Public Health
- School of Public Affairs
- School of Theater, Film and Television

The campus' academic departments and interdepartmental programs schedule more than 2,000 courses each quarter for the benefit of our students. Known for academic excellence, many of UCLA's programs are rated among the best in the nation, and some among the best in the world. Few universities offer the range and diversity of academic programs enjoyed by UCLA students.

The campus' mission also includes a strong dedication to research and public service. The UCLA community focuses on environmental issues, economic and social policy concerns, public education reform, health care costs and medical advances. More than 5,000 research projects are being conducted on campus at any given time. For 2006, UCLA expenditures for research exceeded $574 million. Statistics from the National Science Foundation's *Survey of Federal Science and Engineering Support to Universities, Colleges, and Nonprofit Institutions*, published in November 2006 for activities in fiscal year 2004, shows that UCLA ranked sixth for dollars received, with a total of $498.9 million.

UCLA Extension offers the public 4,500 continuing education courses annually, covering professional and career development, academic enrichment and personal growth.

UCLA employs more than 27,000 faculty, administrators and staff (including casuals and students) and spent just more than $2 billion in compensation costs for the fiscal year ended June 30, 2006. UCLA's employees are distinguished for their contributions to education, research and public service. Nobel Prizes have been awarded to five faculty members, in chemistry, physics and medicine (and to four alumni, in economics and chemistry, with one alumnus receiving the Nobel Peace Prize in 1950). UCLA faculty have also received nine National Medals of Science, and the Presidential Medal of Freedom has been given to three faculty and three alumni.

UCLA Live (performing arts), the Fowler Museum at UCLA, the UCLA Hammer Museum and the Geffen Playhouse make UCLA the leading arts and cultural center of the West, providing both academic programs and a wide array of public programming.

As of June 30, 2006, UCLA's on-campus physical plant included 161 buildings, 13 parking structures, seven parking kiosks and eight new buildings under construction. Off campus, UCLA owns or manages 130 buildings, owns 10 parking structures and leases 71 or more buildings for various activities. UCLA's buildings included 13 libraries, housing more than 8 million volumes; a cogeneration power plant; on-campus student housing for more than 9,900 students; off-campus student and faculty apartments; and more, including the UCLA Conference Center in Lake Arrowhead.

Medical Center – The UCLA Medical Center, the Resnick Neuropsychiatric Hospital at UCLA and the Santa Monica Hospital make up the UCLA hospital system, serving people from Los Angeles, across the country and around the world. The medical center is the primary teaching hospital for the David Geffen School of Medicine at UCLA. It has been named the "Best Hospital in the West" by *U.S. News & World Report* for 17 consecutive years. UCLA continues construction of a technologically innovative 525-bed hospital to replace its existing medical center, a 1951 vintage structure weakened in the 1994 Northridge earthquake. With an expected occupancy date of September 2007, the 10-story structure will combine the operations of the UCLA Medical Center, the Resnick Neuropsychiatric Hospital at UCLA and Mattel Children's Hospital at UCLA.

ASUCLA – The Associated Students of UCLA (ASUCLA) operates the UCLA store and oversees student activities for the Los Angeles campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974. ASUCLA's financial data, representing total revenue of slightly more than $65.4 million for the fiscal year ended June 30, 2006, has also been included to reflect the total financial activity of the UCLA campus.

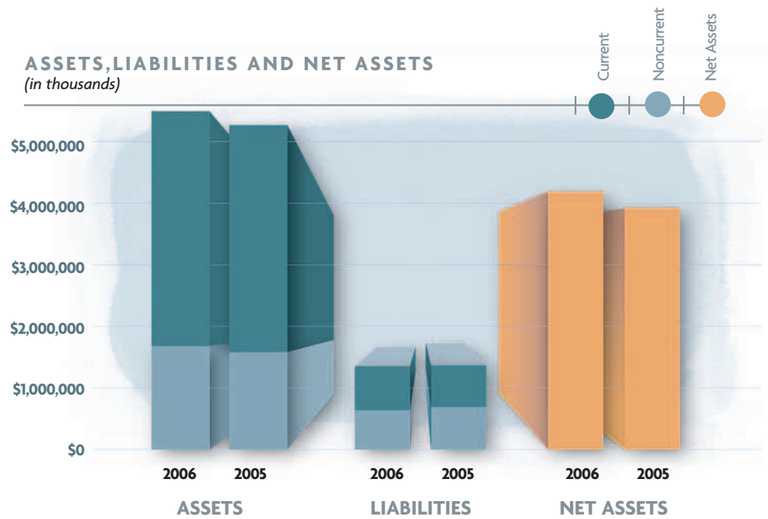
The UCLA Foundation – The foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. Contributions are held by the foundation until such time as funds are needed and are then transferred from the foundation to the campus; at that point, the campus records the receipt of gift revenue. The financial activities of the separately incorporated foundation are not reflected in the campus' records. However, in compliance with Statement No. 39 of the Governmental Accounting Standards Board, which went into effect on July 1, 2003, the foundation's financial activity can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

An Overview – While UCLA's financial information concerning assets, liabilities, revenues and core activity expenditures is discussed in further detail in the subsequent sections of the MD&A, the following table reflects the composition of UCLA for 2006, listing enrollment figures, full-time equivalent employee figures and operating expenses by organization.

(dollars in thousands)	Undergraduate	Graduate	Full-Time Equivalent (Includes Students)	Salaries and Wages	Other Expenditures	Total Expenditures
Organizations	**Fall Enrollment**		**Employees**	**Operating Expenses**		
College of Letters and Science	20,916	2,680	3,400	$ 217,609	$ 105,452	$ 323,061
School of the Arts and Architecture	818	356	441	24,793	15,821	40,614
School of Dentistry	-	488	363	28,489	17,218	45,707
School of Education & Information Studies	-	937	488	31,750	17,651	49,401
School of Engineering and Applied Science	2,260	1,254	808	54,940	38,229	93,169
School of Law	-	990	223	21,970	11,193	33,163
School of Management	-	1,447	326	30,680	21,135	51,815
School of Medicine	-	2,450	6,556	499,587	289,861	789,448
School of Nursing	37	267	96	6,738	3,647	10,385
School of Public Health	-	640	337	24,339	23,690	48,029
School of Public Affairs	-	446	152	11,527	4,966	16,493
School of Theater, Film and Television	310	371	229	14,384	6,504	20,888
University Extension	-	-	311	23,062	19,774	42,836
Hospitals	-	-	6,580	413,016	497,671	910,687
All Others	470	84	6,814	387,061	326,188	713,249
Subtotal Organizations	24,811	12,410	27,124	1,789,945	1,399,000	3,188,945
Depreciation Expense					175,956	175,956
Other Operational Expenditures					21,027	21,027
TOTAL	24,811	12,410	27,124	$ 1,789,945	$ 1,595,983	$ 3,385,928

THE CAMPUS' FINANCIAL POSITION

The statement of net assets presents UCLA's financial position at the end of the fiscal year. It displays the assets and liabilities of the campus, accounted for on a local level. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the campus. At June 30, 2006, the campus' assets were $5.6 billion, liabilities were $1.3 billion and net assets were $4.3 billion, an increase of $373 million from 2005.



The major components of the assets, liabilities and net assets, compared to the prior year, are as follows *(dollars in thousands):*

	2006	2005	Change
ASSETS			
Cash and investments	$ 1,158,567	$ 1,096,883	$ 61,684
Accounts receivable, net	409,223	385,698	23,525
Capital assets, net	3,830,488	3,571,774	258,714
Other assets	167,330	213,994	(46,664)
Total assets	$ 5,565,608	$ 5,268,349	$ 297,259
LIABILITIES			
Current liabilities	$ 623,959	$ 666,149	$ (42,190)
Long-term debt	524,414	554,848	(30,434)
Other noncurrent liabilities	126,411	129,791	(3,380)
Total liabilities	$ 1,274,784	$ 1,350,788	$ (76,004)
NET ASSETS			
Invested in capital assets, net of related debt	$ 3,299,511	$ 3,061,169	238,342
Restricted:			
Nonexpendable	-	-	-
Expendable	295,458	269,770	25,688
Unrestricted	695,855	586,622	109,233
Total net assets	$ 4,290,824	$ 3,917,561	$ 373,263

THE CAMPUS' ASSETS

Long-term investments, the campus' portion of pooled debt and the retirement system are accounted for on a systemwide basis through the Office of the President and are not reflected in UCLA's stand-alone financial statements. UCLA does participate in a temporary investment pool that is administered by the Office of the President, and the balance in this pool is reflected as part of the campus' assets on UCLA's financial statements, under cash and investments. These funds are primarily invested in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. The amount invested in this short-term investment pool at June 30, 2006, totaled $1.1 billion, an increase of $61.7 million from the previous year, primarily due to the timing of cash needs from one year to the next.

Accounts receivable totaled $409 million in 2006, up from $386 million in 2005. Accounts receivable include those from the state and federal governments, those associated with the medical center that are related to patient care, those from investment activity and others, including those related to local and private grants and contracts, and student fees. The $23.5 million variance is attributed in part to a $9 million increase in current outstanding funds receivable for federal contracts and grants, a $12 million increase in federal funds billings for capital projects, and a $15.4 million decrease in state receivables, as state claims for capital projects were paid within 2005–06. In addition, medical center patient-care receivables were up $17.7 million from the prior year, a result of rate increases and an increase in costly transplant surgery cases.

Net capital assets — original cost less depreciation — increased from $3.6 billion in 2005 to $3.8 billion in 2006. Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, special collections and construction in progress. The original cost of capital assets increased by $360 million to $6 billion in 2006, consisting of capital asset acquisitions of $434 million, offset by the disposal of $74.7 million of capital assets (equipment and special collection items) during the year in the ordinary course of business. Capital asset acquisitions in 2005 were $494 million and asset disposals were $97.3 million. During 2006, capitalized costs for completed projects included $333.7 million for new buildings and improvements to existing buildings, $67.6 million for new equipment, $19.7 million for libraries and collections, and $2.9 million for special collections, including rare books. At the end of 2006, the increase from 2005 in the cost of projects under construction, net of the costs of those projects completed and reclassified during 2006 to buildings and improvements or equipment, totaled $10.9 million, bringing construction in progress to $1.6 billion. This includes the Westwood Replacement Hospital (expected occupancy September 2007) and the Santa Monica Replacement Hospital (estimated completion early 2010).

Accumulated depreciation increased from $2.07 billion in 2005 to $2.17 billion in 2006. Depreciation and amortization for the year totaled $176 million, whereas depreciation on assets sold or disposed of during the year was $74.5 million. The disposals during 2006 were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets of $167 million at June 30, 2006 (a decrease of $46.7 million from 2005), included inventories, investments held by trustees, and notes and mortgages receivable. Payments received from investments held by trustees to fund construction work accounted for the majority of the decrease, primarily $40.5 million transferred from state public works bonds, mainly for the replacement hospitals.

THE CAMPUS' LIABILITIES

Current liabilities of the campus, down $42.2 million from the prior year, consist largely of accounts payable to vendors for goods and services, accrued compensation costs due to employees for services performed, deferred revenue and current portions of long-term debt utilized to finance capital assets. The accounts payable for the campus consist of amounts due to vendors for goods and services received for general operation of the campus and medical center, and for capital assets. Overall accounts payable showed a decrease to $253 million in 2006 from $270 million in 2005. Accrued salaries and benefits showed a decrease of $69 million during 2006, directly attributed to June 2005 salaries being paid on July 1, 2005, whereas June 2006 salaries were paid on June 30, 2006. Deferred revenues for 2006 totaled $169 million, up from $160 million in 2005.

Long-term debt, used for capital expenditures, is financed by a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans and leases. Commercial paper provides interim financing. The campus' portion of pooled debt is accounted for on a Universitywide basis. Other debt used to finance capital assets, and accounted for locally as noncurrent long-term debt, was down from $555 million at the end of 2005 to $524 million at the end of 2006, a decrease of $30.4 million. This decrease results mainly from capital lease obligations ($31.9 million for the California NanoSystems Institute debt) that were refinanced through the sale of multi-campus bond issuances. The liability for this debt is now carried at the Office of the President.

Other noncurrent liabilities fell by $3 million in 2006, attributed mainly to a decrease in accrued vacation leave.

THE CAMPUS' NET ASSETS

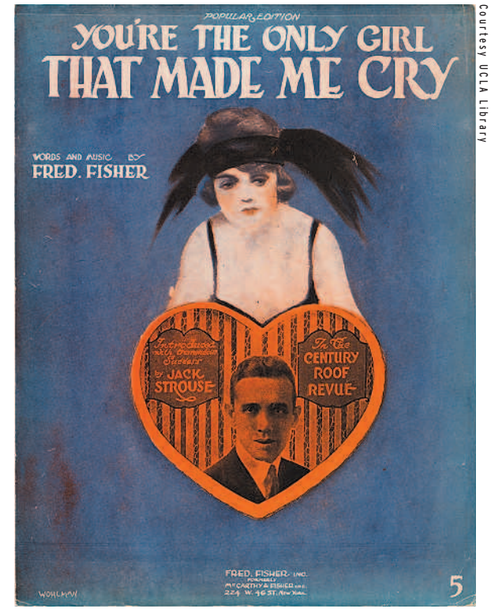
Net assets represent the residual interest in the campus' assets after all liabilities are deducted. During the year, the campus' net assets increased by $373 million, bringing the year-end total to $4.3 billion. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, grew from $3.1 billion in 2005 to $3.3 billion in 2006, an increase of $238 million.

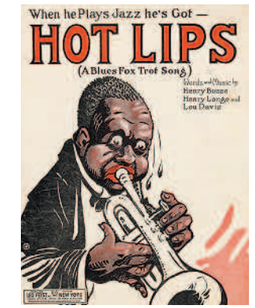
The campus reflects a zero balance in restricted nonexpendable net assets, as endowments and charitable remainder trusts are accounted for on a systemwide basis and are excluded from UCLA's financial statements.

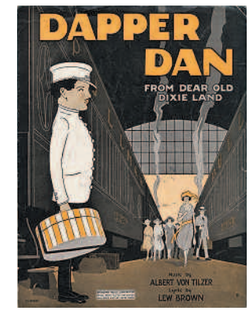
Restricted expendable net assets, which totaled $295 million in 2006, up from $270 million in 2005, are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee-held investments; or other third-party receipts.

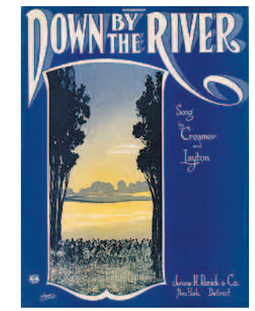
Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated internally and are allocated for academic and research initiatives or programs, or for capital purposes. As of June 30, 2006, unrestricted net assets were $696 million, an increase of $109 million from the previous year.



Courtesy UCLA Library







The UCLA Archive of Popular American Music covers the history of popular music in America from 1790 to the present. One of the largest such collections in the country, it contains almost 450,000 pieces of sheet music, anthologies and arrangements for band and orchestra, and 62,500 recordings on disc, tape and cylinder. The physical collection is housed in the Music Library Special Collections, and selections are available online at http://digital.library.ucla.edu/apam

From top left: "You're the Only Girl That Made Me Cry" (1920), "And He'd Say Oo-la-la-wee-wee" (1919), "When He Plays Jazz, He's Got – Hot Lips" (1922), "Dapper Dan" (1921), "Lonesome Mama" (1922), "Runnin' Wild" (1922), "Down by the River" (1923) "You Tell Her, I Stutter" (1922).

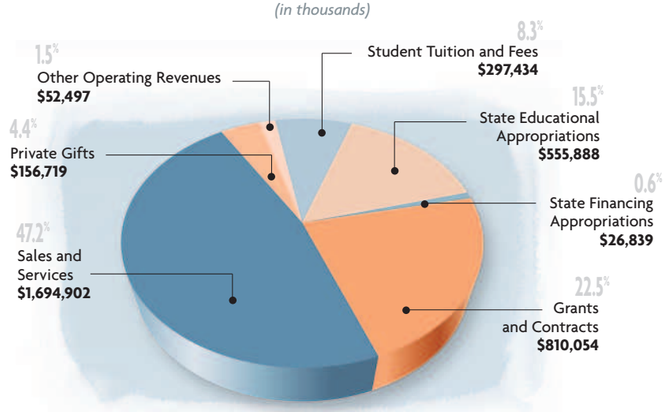
THE CAMPUS' RESULTS OF OPERATIONS

The statement of revenues, expenses and changes in net assets is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus, including state educational appropriations, private gifts and investment income, are mandated to be recorded as nonoperating revenues.

The following chart displays the categories of both operating and nonoperating revenues that support core activities, as of June 30, 2006:

REVENUES SUPPORTING CORE ACTIVITIES

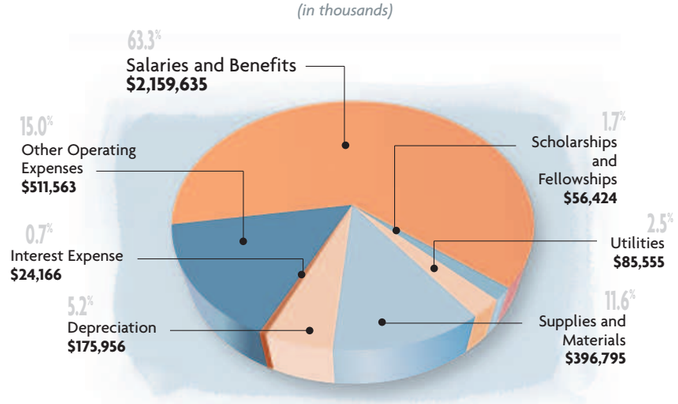
(in thousands)



The following chart displays the portion of operating and nonoperating expenses related to core activities of the campus, as of June 30, 2006:

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

(in thousands)



Below is a summarized comparison of the operating results for 2006 and 2005, arranged in a format that matches the revenue supporting the core activities of UCLA with the expenses associated with core activities (*dollars in thousands*):

	YEAR ENDED JUNE 30, 2006			YEAR ENDED JUNE 30, 2005			
	Operating	Nonoperating	Total	Operating	Nonoperating	Total	Change
REVENUES							
Student tuition and fees, net	$ 297,434	$ -	$ 297,434	$ 283,964	$ -	$ 283,964	$ 13,470
State educational appropriations	-	555,888	555,888	-	534,214	534,214	21,674
State financing appropriations	-	26,839	26,839	-	26,630	26,630	209
Grants and contracts	810,054	-	810,054	793,091	-	793,091	16,963
Sales and services, net	1,694,902	-	1,694,902	1,610,751	-	1,610,751	84,151
Private gifts	-	156,719	156,719	-	114,181	114,181	42,538
Other revenues	47,412	5,085	52,497	43,885	1,674	45,559	6,938
Revenues supporting core activities	2,849,802	744,531	3,594,333	2,731,691	676,699	3,408,390	185,943
EXPENSES							
Salaries and benefits	2,159,635	-	2,159,635	2,074,096	-	2,074,096	85,539
Scholarships and fellowships	56,424	-	56,424	60,948	-	60,948	(4,524)
Utilities	85,555	-	85,555	81,393	-	81,393	4,162
Supplies and materials	396,795	-	396,795	390,956	-	390,956	5,839
Depreciation	175,956	-	175,956	173,765	-	173,765	2,191
Interest expense	-	24,166	24,166	-	24,292	24,292	(126)
Other expenses	511,563	-	511,563	538,008	9,789	547,797	(36,234)
Expenses associated with core activities	3,385,928	24,166	3,410,094	3,319,166	34,081	3,353,247	56,847
Income (loss) from core activities	(536,126)	720,365	184,239	(587,475)	642,618	55,143	129,096
Transfers to (from) core activities	-	(58,738)	(58,738)	-	(31,782)	(31,782)	(26,956)
Net income (loss) from core activities	$(536,126)	$ 661,627	125,501	$(587,475)	$ 610,836	23,361	102,140
OTHER NONOPERATING ACTIVITIES							
Net appreciation in fair value of investments			-			-	-
Loss on disposal of capital assets, net of proceeds			(2,310)			(12,788)	10,478
Income (loss) before other changes in net assets			123,191			10,573	112,618
OTHER CHANGES IN NET ASSETS							
State capital appropriations			40,193			29,535	10,658
Capital gifts and grants			50,392			79,861	(29,469)
Transfers to (from) capital accounts			161,132			162,114	(982)
Increase in net assets			374,908			282,083	92,825
NET ASSETS							
Beginning of year			3,917,561			3,635,478	282,083
Cumulative effect of a change in accounting principle•			(1,645)			-	(1,645)
End of year			$4,290,824			$3,917,561	$ 373,263

• *Change in accounting principal for booking of voluntary and involuntary termination pay (GASB 47)*

REVENUES ASSOCIATED WITH CORE ACTIVITIES

Revenues to support UCLA's core activities, including those classified as nonoperating revenues, grew from $3.4 billion in 2005 to $3.6 billion in 2006, an increase of $186 million. The campus has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of UCLA. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, food services operations and parking.

Categories of revenues, as well as activity trends, are described below:

Revenues (in thousands)	2006	Percent of Total	2005	Percent of Total	Change	Change Over Prior Year
Student tuition and fees, net	$ 297,434	8.28%	$ 283,964	8.33%	$ 13,470	4.7%
State appropriations	582,727	16.21%	560,844	16.45%	21,883	3.9%
Grants and contracts	810,054	22.54%	793,091	23.27%	16,963	2.1%
Sales and services, net	1,694,902	47.15%	1,610,751	47.26%	84,151	5.2%
Private gifts	156,719	4.36%	114,181	3.35%	42,538	37.3%
Other revenues, net	52,497	1.46%	45,559	1.34%	6,938	15.2%
TOTAL	$ 3,594,333	100.00%	$ 3,408,390	100.00%	$ 185,943	5.5%

Student Tuition and Fees, net (in thousands)	2006	2005	Change	Change Over Prior Year
Student tuition and fees	$ 402,620	$ 376,938	$ 25,682	6.8%
Scholarship allowance	(105,186)	(92,974)	(12,212)	13.1%
TOTAL	$ 297,434	$ 283,964	$ 13,470	4.7%

Student Tuition and Fees revenue, net of scholarship allowances, grew by $13.5 million, from $284 million in 2005 to $297 million in 2006, a 4.7% increase. The increase consists mainly of $25.7 million from the rise in student fees, offset by a $12.2 million increase in student financial aid distribution. To compensate for prior state budget cuts to the University's general funds, and to avoid reducing instructional programs, mandatory systemwide student fees were increased by 8% above the previous fee level.

State Appropriations (in thousands)	2006	2005	Change	Change Over Prior Year
State educational appropriations	$ 555,888	$ 534,214	$ 21,674	4.1%
State financing appropriations	26,839	26,630	209	0.8%
TOTAL	$ 582,727	$ 560,844	$ 21,883	3.9%

State Appropriations consists of two components, educational and financing. Educational appropriations from the State of California increased by $21.7 million to $556 million in 2006, a rise of 4.1%. This was the first increase after five years of decline in state support to the University due to the major state budget deficit.

State financing appropriations are directly related to the required rental payments under lease-purchase agreements with the State of California, which increased by $0.2 million in 2006 to $26.8 million.

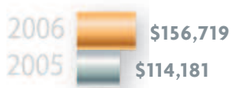
Grants and Contracts (in thousands)	2006	2005	Change	Change Over Prior Year
Federal	$ 601,537	$ 586,312	$ 15,225	2.6%
State	$ 41,473	$ 48,386	$ (6,913)	-14.3%
Private	$ 134,248	$ 129,715	$ 4,533	3.5%
Local	$ 32,796	$ 28,678	$ 4,118	14.4%
TOTAL	$ 810,054	$ 793,091	$ 16,963	2.1%

Grants and Contracts revenue from federal, state, private and local sources increased by just under $17 million during 2006 to $810 million. Federal grant and contract revenue, including facilities and administration cost recovery of $133 million, direct expenditures of $460.3 million and receipts in excess of expenditures of $8.2 million, grew by $15.2 million to $601.5 million. This revenue represents support from a variety of agencies: the Department of Health and Human Services, $405 million; the National Science Foundation, $61 million; the Department of Education, $42 million; the Department of Veterans Affairs, $17 million; the Department of Energy, $19 million; and other federal agencies, $58 million. Other changes in contracts and grants are as follows: State contracts decreased from $48.4 million in 2005 to $41.5 million in 2006, private contract and grant funds increased by $4.5 million to $134.2 million, and local contracts and grants increased by $4.1 million to $32.7 million.

Sales and Services (in thousands)	2006	2005	Change	Change Over Prior Year
Medical centers	$ 992,385	$ 941,850	$ 50,535	5.4%
Educational activities	435,099	427,451	7,648	1.8%
Auxiliary enterprises, net	267,418	241,450	25,968	10.8%
TOTAL	$ 1,694,902	$ 1,610,751	$ 84,151	5.2%

Sales and Services revenue represents revenue from medical centers, educational activities and auxiliary enterprises, net of scholarship allowance. This revenue increased to $1.69 billion in 2006 from $1.61 billion in 2005, a total increase of $84.2 million. Medical center revenue growth of $50.5 million over the prior year to $992 million was primarily due to a combination of rate increases and an increase in patient activity. Sales from educational activities, primarily patient-care fees in the David Geffen School of Medicine at UCLA, grew by $7.6 million to a total of $435 million. Sales from auxiliary enterprises showed a 10.8% increase, from $241.5 million in 2005 to $267.4 million in 2006. This increase was due in part to three major additions to student housing — Weyburn Terrace, Rieber Hall and Hedrick Hall — increasing space capacity by 25.5%, or 2,013 beds.

Private Gifts (in thousands)	2006	2005	Change	Change Over Prior Year
Gifts	$ 59,877	$ 46,109	$ 13,768	29.9%
Transfers from The UCLA Foundation	96,842	68,072	28,770	42.3%
TOTAL	$ 156,719	$ 114,181	$ 42,538	37.3%



Private Gift revenue can come directly from the donor or can be held by The UCLA Foundation until needed. These funds generally are restricted to uses designated by the donor. In 2006, revenues totaled $156.7 million, representing a $42.5 million, or 37.3%, increase over 2005. Approximately 61% of the 2006 private gifts revenue was attributed to transfers by campus departments from The UCLA Foundation for various campus needs.

Other Revenues, net (in thousands)	2006	2005	Change	Change Over Prior Year
Service Enterprises	$ 2,708	$ 3,590	$ (882)	-24.6%
Other self-supporting units	44,704	40,293	4,411	10.9%
Total other operating revenues	47,412	43,883	3,529	8.0%
Other nonoperating revenues	5,085	1,674	3,411	203.8%
TOTAL	$ 52,497	$ 45,557	$ 6,940	15.2%

Other Revenues, net of scholarship and other allowances, along with nonoperating revenues, totaled $52.5 million for 2006. The majority, $47.4 million, attributed to operating revenue comes from a variety of self-supporting units, such as the Arthur Ashe Student Health and Wellness Center, UCLA Live, the Department of Cultural and Recreational Affairs, and parking fines and forfeitures. Nonoperationg revenues totaled $5.1 million for 2006.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

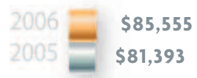
UCLA's expenses associated with core activities for 2006, including those classified as nonoperating expenses, totaled $3.4 billion, up $56.8 million from $3.35 billion in 2005. Almost two-thirds, 63%, of UCLA's core expenses are related to salaries and benefits of academic and administrative staff working on behalf of the University. Other expenses are related to goods and services used for operation of the core activities of the campus, depreciation of capital assets, and scholarship and fellowship payments to students.

Categories of expenses, as well as activity trends, are described below:

Expenses (in thousands)	2006	Percent of Total	2005	Percent of Total	Change	Change Over Prior Year
Salaries and benefits	$ 2,159,635	63.33%	$ 2,074,096	61.85%	$ 85,539	4.1%
Scholarships and fellowships	56,424	1.65%	60,948	1.83%	(4,524)	-7.4%
Utilities	85,555	2.51%	81,393	2.43%	4,162	5.1%
Supplies and materials	396,795	11.64%	390,956	11.66%	5,839	1.5%
Depreciation	175,956	5.16%	173,765	5.18%	2,191	1.3%
Interest expense	24,166	0.71%	24,292	0.72%	(126)	-0.5%
Other expenses, net	511,563	15.00%	547,797	16.34%	(36,234)	-6.6%
TOTAL	$ 3,410,094	100.00%	$ 3,353,247	100.00%	$ 56,847	1.7%

Salaries and Benefits reflected a 4.1% increase over the prior year, from $2.07 billion in 2005 to $2.16 billion in 2006 ($1.8 billion in salaries and wages and $369.7 million in benefits). There are nearly 37,000 employees filling a total of approximately 27,000 full-time equivalent positions. The majority of this increase is attributed to the David Geffen School of Medicine at UCLA and the medical center; additionally, there was a 3% increase in funding for state-supported salaries and benefits, and to address market-based and equity issues.

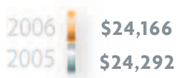
Scholarships and Fellowships, payments of financial aid made directly to students and reported as an operating expense, totaled $56.4 million in 2006, 7.4% less than 2005. Scholarship allowances (financial aid, fee waivers by the campus and third-party payments to the University on behalf of students) increased in 2006 by 21% to $137 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, financial aid to students in all forms grew from $180.6 million in 2005 to $195.6 million in 2006, an increase of $15 million, or 8.3%.



Utilities costs showed a 2.4% increase from the prior year to $85.5 million. This increase was attributed mainly to the price increase in natural gas and, to a lesser degree, utilities services. UCLA continues the energy-saving measures adopted by the University as recommended by the University's Energy Conservation Task Group.

Supplies and Materials, net of elimination of capitalization, increased by $5.8 million over the prior year to $396.8 million. This 1.5% increase is attributed to the normal course of doing business to meet campus needs.

Depreciation and Amortization expenses increased from $173.8 million in 2005 to $176 million in 2006. The $2.2 million increase is mainly due to the depreciation of equipment for campus and the hospitals.



Interest Expense, reported as a nonoperating expense, fell by $0.12 million in 2006 to $24.2 million, showing minimal change from the prior year in scheduled payments for capital leases and revenue bonds.

Other Expenses Associated with Core Activities fell by $36 million to $512 millionin 2006, a decrease of 6.6% from 2005. This variance was attributed to a change in the accounting method for the recording of bad debt; bad debt was previously recorded as an expense, but as of 2005–06, it is instead recorded as a reduction to revenue.

OTHER NONOPERATING ACTIVITIES

UCLA's nonoperating activities that are generally non-cash transactions, and therefore not available to be used to support operating expenses, include the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

Since the majority of investment activity is recorded at a systemwide level, the appreciation and depreciation of the fair market value investments is not significant from year to year.

Routine disposals and write-offs of capital assets resulted in a decrease to expense totaling $2.3 million in 2006, compared with $12.8 million in 2005. The major portion of the expense for 2006 was related to disposal of capital equipment. Useful lives of equipment are assigned at the time of acquisition based on an established useful life table; equipment is fully depreciated when the accumulated depreciation equals the acquisition value. Equipment is written off at the time of disposal.

OTHER CHANGES IN NET ASSETS

Similar to the other nonoperating activities discussed above, other changes in net assets are also not available to support UCLA's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Transfers consist of two groups, those from core activities that support campus operations and transfers specific to capital assets.

UCLA's existing facilities continue to need renewal, modernization and seismic correction. Capital appropriations from the state increased by $10.7 million, from $29.5 million in 2005 to $40.2 million in 2006, due to claims submitted and funding received for related capital projects. Capital appropriations from gifts and grants decreased by $29.5 million, from $79.9 million in 2005 to $50.4 million in 2006. This drop is mainly attributed to the decrease in federal grants as a result of lower expenditures against Federal Emergency Management Agency (FEMA) funding for the replacement hospitals as the hospitals near completion.

Campus transfers from core activities ($58.7 million), offset by capital accounts ($161 million), totaled $102.4 million for 2006, a decrease of $27.9 million from 2005. The majority of the activity can be associated with indirect cost recovery, intercampus transfers, unexpended plant funds and retirement of indebtedness.

Campus transfers from core activities consist mainly of indirect cost recovery and intercampus transfers. The indirect cost recovery from facilities and the administrative costs of contract and grant activity totaled $153 million in 2006, an increase of $5.5 million over the prior year. These funds are transferred to the Office of the President as part of the closing processes and then reallocated at a designated rate to the campus in the new year. The University has an agreement with the state regarding the disbursal of federal reimbursement. Approximately 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity, and this is the source of the University's off-the-top overhead funds. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University general funds and is used, along with state general funds, to help fund the University's budget; the remaining 45% is the source of the University Opportunity Fund.

Intercampus transfers totaled $249 million for 2006, an increase of $1.3 million from 2005. This includes the allotment of indirect cost funds from the prior year's recovery, transfers of funding between campuses for related projects and short-term investment income.

Unexpended plant fund transfers totaled $218 million for 2006, an increase of $2.3 million from 2005. This increase resulted from transfers of borrowed funds from the Office of the President for various plant projects, such as the California NanoSystems Institute Court of Science building; various housing projects, including Rieber Vista and Rieber Terrace; and the new replacement hospitals.

Retirement of indebtedness totaled $59.4 million for 2006, an increase of $7.4 million from 2005. This increase is a result of principal and interest payments to the Office of the President for debt service related to changes in financing and amortization schedules. The increase in interest payments, which accounted for $4.3 million of the variance, is due to a combination of refinancing and a rise in interest rates in the marketplace. The increase in principal payments is due to first-time payments in 2005–06 for Pool Bonds 9 and 10 ($0.7 million and $0.9 million, respectively) and General Revenue Bonds 2005 Series F ($0.9 million). The remaining $0.6 million variance is attributable to a mix of small projects.

THE CAMPUS' CASH FLOWS

The statement of cash flows presents the significant sources and uses of cash. UCLA's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis.

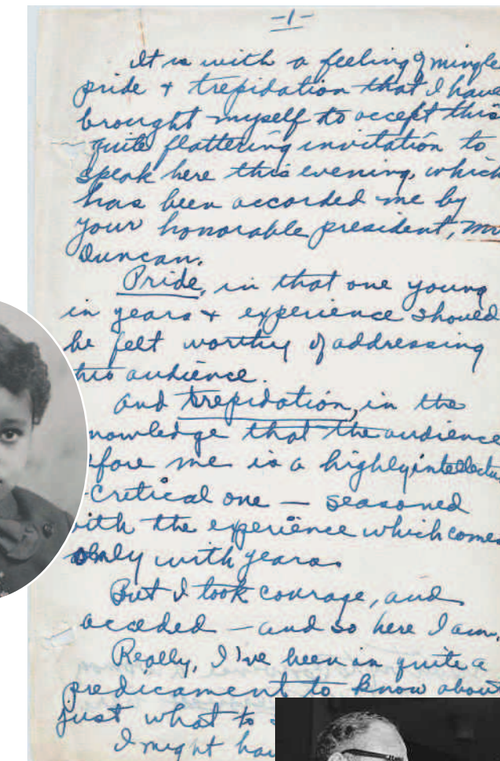
A summary comparison of cash flows for 2006 and 2005 is as follows:

Cash Flow (in thousands)	2006	2005	Change
Cash received from operations	$ 2,832,879	$ 2,761,079	$ 71,800
Cash payments for operations	(3,286,753)	(3,089,094)	(197,659)
Net cash used by operating activities	(453,874)	(328,015)	(125,859)
Net cash provided by noncapital financing activities	725,731	622,054	103,677
Net cash used by capital and related financing activities	(311,040)	(293,486)	(17,554)
Net cash provided by investing activities	-	-	-
Cumulative effect of change in accounting principles	(1,645)	-	(1,645)
Intercampus and transfer activities	102,394	129,852	(27,458)
Net (decrease) increase in cash	61,566	130,405	(68,839)
Cash, beginning of year	1,096,881	966,476	130,405
Cash, end of year	$ 1,158,447	$ 1,096,881	$ 61,566

UCLA's cash in demand deposit accounts increased by $61.6 million, from $1.09 billion in 2005 to $1.16 billion in 2006. More than $454 million was used for operating activities, offset by $726 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operational activities.

Cash of $311 million was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include state and federal (FEMA) capital appropriations, gifts for capital purposes and new external financing.

Courtesy UCLA Library



-1-

It is with a feeling of mingled pride + trepidation that I have brought myself to accept this quite flattering invitation to speak here this evening, which has been accorded me by your honorable president, Mr. Duncan.

Pride, in that one young in years + experience should be felt worthy of addressing this audience.

And trepidation, in the knowledge that the audience for me is a highly intellectual critical one — seasoned with the experience which comes only with years.

But I took courage, and acceded — and so here I am. Really, I've been in quite a predicament to know about just what to
I might ha

One of UCLA's most distinguished alumni, Ralph Johnson Bunche (1903–71) fought poverty and racism on his way to becoming one of the 20th century's leading peacemakers. The world honored him in 1950 with the Nobel Peace Prize for his efforts to reach a settlement between the Arabs and Israelis in the Middle East, but that was only one exceptional accomplishment in an extraordinary life dedicated to achieving harmony and equality among all people, regardless of nationality or race.

Clockwise from upper left:
Photograph of Ralph Bunche with his mother, Olive, taken in Albuquerque, New Mexico (c. 1915). Charles E. Young Research Library Department of Special Collections. Ralph J. Bunche Papers.

Photograph of Ralph Bunche (c. 1910)
Charles E. Young Research Library Department of Special Collections. Brian Urquhart Collection of Material about Ralph Bunche.

"Across the Generation Gap," 1926–27.
Charles E. Young Research Library Department of Special Collections. Ralph J. Bunche Papers.
In this speech, delivered to an audience of mostly black adults, Bunche ranged from confronting the generation gap to criticizing blind allegiance to the Republican Party to condemning racial discrimination and segregation in blunt, angry terms.

Ralph Bunche playing basketball, 1926–27.
Charles E. Young Research Library Department of Special Collections. Ralph J. Bunche Papers.
Bunche earned an academic scholarship to UCLA, and he played on the football team until a leg injury forced him to switch to basketball. Although he acknowledged that he was not a natural athlete, his competitive instinct and his dedication to team play would serve him well later in life.

Photograph of Ralph Bunche delivering a speech at the dedication of Bunche Hall, May 23, 1969. University Archives. Bunche's final visit to UCLA came about a year and a half before his death, when the social sciences building was dedicated in his honor. In his remarks, he credited the central role UCLA played in shaping him: ". . . UCLA is where it all began for me, where in a sense I began. College for me was the genesis and the catalyst."

management's discussion and analysis

LOOKING FORWARD

The campus', and the University's, quality is a hallmark for the State of California and the nation. The excellence of UCLA's programs attracts the best students; leverages hundreds of millions of dollars in state, federal and private funding; and promotes discovery of new knowledge that fuels economic growth.

One of the University's major financial strengths is its diverse sources of revenue — from the State of California, student fees, federal grants and contracts, medical centers, private gifts, and self-supporting enterprises. The different sources of revenue are especially important at this time, as the state-funded portion of the operating budget has experienced considerable pressure, leading to non-instructional program cuts, student fee increases and enrollment caps.

Two years ago, the University and the governor agreed on a compact to provide guidance and financial commitments to a long-term resource plan for the University. The compact addresses fundamental financial support, enrollment, student fees and other key program elements, for 2006 through 2011. It provides a financial foundation for the University and the ability to plan for student fee levels over the next several years. In exchange for this long-term stability, the University will focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality, among other areas.

In keeping with terms outlined in this compact, the UC Board of Regents approved systemwide undergraduate and graduate student fee increases for 2006. Fees for California resident undergraduates will increase by $81 (1%), while resident graduate academic students will pay an additional $168 (2%). Professional-school fee increases will vary by school. For 2007, resident student fees will not be increased; however, nonresident undergraduate student tuition will be raised by 5%. Consistent with past practice, a portion of the fee increases will be used for financial aid.

The campus remains highly competitive in terms of attracting federal grant and contract revenue, with fluctuations in UCLA's share closely paralleling trends in the budgets of federal research-granting agencies. The majority of UCLA's research revenue comes from the Department of Health and Human Services. Other significant research funding is awarded from the Department of Education, the National Science Foundation, the Department of Energy and the Department of Veterans Affairs. Large increases in future federal funding for research are not likely. The federal budget outlook has deteriorated due to the current budget deficit and discussions regarding the reduction of deficits over the next few years. This may lead to future congressional efforts to limit domestic discretionary spending increases in areas such as research and would have important ramifications for the University's research budget.

The medical centers face financial challenges in a price-sensitive managed-care environment. The demand for health care services and the cost of providing them are increasing significantly, while revenues to support these services are diminishing. In addition to cost increases faced by hospitals across the state, such as rising salary and benefit costs, UCLA's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals, and the care for a disproportionate share of the medically underserved in California. In recent years, federal legislation has been enacted to slow future rate increases in Medicare and Medicaid and to reduce medical education and disproportionate-share funding. The UCLA hospital system continues to pursue short- and long-term solutions to address financial challenges at both the state and federal level in order to remain competitive in its market.

The continuing financial success of the medical centers is dependent on dedicated and sustained financial support for medical education and care for the poor. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

UCLA continues with the construction of the new Westwood hospital which will replace its existing medical center and combine the operations of the Resnick Neuropsychiatric Hospital at UCLA and the Mattel Children's Hospital. Full occupancy of the new facility is expected for September 2007.

Additionally, multiphase construction continues with the Santa Monica/Orthopaedic Replacement Hospital. The new state-of-the-art inpatient facility, which is an alliance between Santa Monica-UCLA Medical Center and Orthopaedic Hospital, is being constructed to include 120 acute care beds, with final sitework expected to be achieved by early 2010.

UCLA and The UCLA Foundation's remarkable achievement in recent years in obtaining private support through Campaign UCLA, which raised more than $3.05 billion by its completion on Dec. 31, 2005, is a testament to UCLA's distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which the campus and the University are held. UCLA's Ensuring Academic Excellence initiative, launched in June 2004 by the Foundation, is designed to generate $250 million in private commitments through 2009, specifically to help attract and retain top students and faculty, a campuswide priority. The level of private support underscores the continued confidence among donors in the quality of UCLA's programs and the importance of its mission. At the same time, private support in 2007 and beyond will likely reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Affordable, accessible student housing is required in order to satisfy the demand. UCLA was already looking ahead with the Northwest Campus Housing Project, approved by The Regents in 2002, which consists of three new nine-story buildings located in the northwest section of campus. Subsequent expansion of on-campus housing, undertaken with Hedrick Summit, completed in June 2005; Rieber Vista, completed in August 2005; and Rieber Terrace, completed in May 2006, has added almost 2,000 bedspaces and brings UCLA's on-campus housing inventory for undergraduate students to more than 9,000 beds, completing UCLA's transformation from a commuter institution to a residential campus.

Since a balanced array of many categories of facilities is needed to meet its education, research and public service goals, UCLA continues to assess its long-term capital requirements. Support for the campus' capital program will continue to be provided from a combination of sources, including the State of California, external financing, gifts and other sources.

There also are plans for additional capital projects that are not considered to be state-supportable. This is a continuing process that is amended as required to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UCLA, including written statements (as outlined above) or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that UCLA expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCLA does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Dec. 31, 2005, marked an unparalleled milestone for the UCLA campus — the completion of Campaign UCLA, with a final total of more than $3.05 billion, making it the most successful fund-raising effort in the history of higher education. Exceeding its initial $2.4 billion goal by nearly 25 percent, the 10-year Campaign raised $226 million for student support, $605 million for faculty research and endowed professorships, and $634 million for new and enhanced facilities, including the new Ronald Reagan UCLA Medical Center.

Outright gifts and pledge payments to the University during the 2005–06 fiscal year totaled $319.6 million. This marks the seventh consecutive year in which UCLA's gift total has surpassed $250 million.

Concurrent with the final years of the Campaign, UCLA's Ensuring Academic Excellence initiative garnered $73.6 million during 2005–06, bringing the initiative's total to $168 million. Launched in June 2004, Ensuring Academic Excellence is designed to generate $250 million in private funds through 2009, specifically to help attract and retain top students and faculty, a campuswide priority.

In the UCLA College of Letters and Science, for example, Paul and Hisako Terasaki made a gift of $5 million to name the Paul I. & Hisako Terasaki Center for Japanese Studies. This commitment included $1 million to support postdoctoral and graduate fellowships. Fellows will be chosen from among emerging academic leaders in the United States, Japan and the rest of the world to conduct cutting-edge research in the field of Japanese studies.

In addition, graduate student fellowship support included $134,000 from the Los Angeles chapter of the Achievement Rewards for College Scientists Foundation, Inc. (ARCS) for UCLA's Brain Research Institute, continuing more than 40 years of funding by ARCS for the institute and its students.

Also included in the 2005–06 total were gifts to create 10 new endowed faculty chairs in the professional schools and eight new endowed chairs in the College of Letters and Science. Among these commitments was a bequest of $1.5 million from the estate of Bernard Breslauer to the Graduate School of Education & Information Studies. The gift establishes the Martin and Bernard Breslauer Professorship in Bibliography, the first endowed chair in the department of information studies at UCLA.

Private philanthropy continues to secure UCLA's position as a leader in American higher education by supporting pioneering research, providing student and faculty support, enhancing interdisciplinary programs and enabling capital improvements.

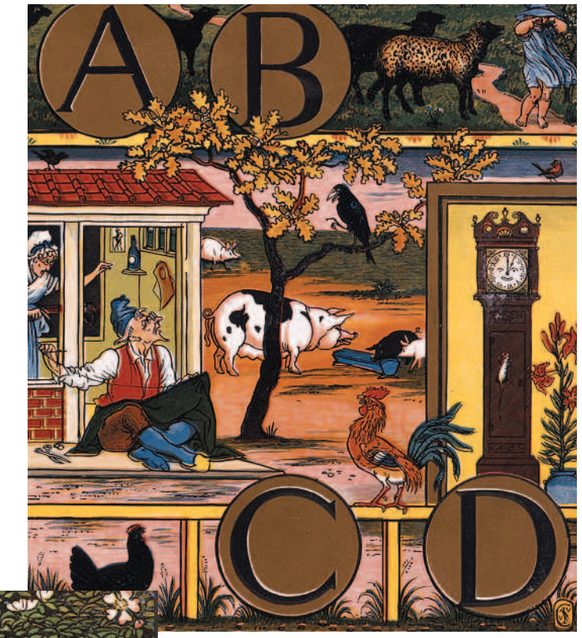
One of the largest and most charming collections in the UCLA Library is the Children's Book Collection, a wonderfully appealing assortment of materials that includes enchanting fairy tales, engaging pop-up and movable books, and clever teaching aids. The collection was established in the 1940s and now totals more than 25,000 objects, chiefly English and American publications.

Left (*top to botom*):

Lothar Meggendorfer
Illustration for *Die Uhr* (The clock)
1907
Pencil, ink and watercolor
8 1/4 x 10 3/4 inches

Harold B. Lentz, illustrator
The Pop-Up Mother Goose
New York: New York, 1933

Arthur Rackham
Untitled
1904
Watercolor and ink
14 x 11 inches



Photography: Robert Wedemeyer

Walter Crane
The Alphabet of Old Friends
London, New York: George Routledge and Sons, 1874

Walter Crane, illustrator
Beauty and the Beast
London: George Routledge and Sons, 1874

Courtesy UCLA Library

The papers of Harry Crane (1914–99), creator of "The Honeymooners" and a prolific writer of radio, television and film comedy, include scripts, correspondence, photographs, topical humor publications and awards spanning his career from the 1940s through the 1990s.
Given to UCLA by Crane's daughters, Stephanie Crane and Barbara Gilbert Cowan, the collection is housed in the Arts Library Special Collections.

Top (l-r): Jerry Lewis, Zsa Zsa Gabor, Harry Crane, Dean Martin, [unidentified], Leo Durocher in Phoenix, February 24, 1954

Bottom left (l-r): [unidentified], Jackie Gleason, [unidentified], Harry Crane, [unidentified], mid-1950s

Lower right (l-r): Harry Crane, Jimmy Durante, Peter Lawford, Frank Sinatra, 1950s

TRANSMITTAL LETTER

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2006.

The UCLA Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity. This separate UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the financial activity of the legally separate, tax-exempt UCLA Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

Respectfully submitted,

Susan K. Abeles

Susan K. Abeles
Assistant Vice Chancellor/Controller
Corporate Financial Services

STATEMENT OF NET ASSETS

(dollars in thousands)

For Fiscal Year Ended June 30, 2006, with comparative totals for 2005

	CAMPUS* 2006	CAMPUS* 2005	FOUNDATION 2006	FOUNDATION 2005
ASSETS				
Cash	$ 26,680	$ 24,910	$ 1,460	$ 837
Short-term investments	1,131,767	1,071,973	141,059	131,593
Investment of cash collateral	-	-	50,372	57,118
Investments held by trustees	120	120	-	-
Accounts receivable, net	409,223	385,698	3,710	7,383
Pledges receivable, net	3,298	6,290	36,756	48,403
Current portion of notes and mortgages receivable, net	6,453	10,034	389	444
Inventories	29,383	29,663	-	-
Other current assets	26,894	26,647	3,002	2,516
Current assets	1,633,818	1,555,335	236,748	248,294
Investments	-	-	861,552	726,276
Investments held by trustees	20,934	61,606	-	-
Pledges receivable	6,306	9,937	170,814	167,431
Notes and mortgages receivable, net	59,110	54,867	121	69
Land, buildings, equipment, libraries and collections, net	3,830,488	3,571,774	28,293	31,655
Other noncurrent assets	14,952	14,830	6,830	9,927
Noncurrent assets	3,931,790	3,713,014	1,067,610	935,358
Total assets	$ 5,565,608	$ 5,268,349	$ 1,304,358	$ 1,183,652
LIABILITIES				
Accounts payable	$ 252,837	$ 269,897	$ 1,644	$ 1,660
Accrued salaries and benefits	77,833	147,001	-	-
Deferred revenue	168,683	159,651	1,453	1,472
Current portion of long-term debt	26,730	20,759	50,372	57,118
Funds held for others	-	-	67,002	58,030
Other current liabilities	97,876	68,841	6,060	5,826
Current liabilities	623,959	666,149	126,531	124,106
Federal refundable loans	43,056	43,218	-	-
Obligations under life income agreements	-	-	44,609	43,212
Long-term debt	524,414	554,848	-	-
Other noncurrent liabilities	83,355	86,573	-	-
Noncurrent liabilities	650,825	684,639	44,609	43,212
Total liabilities	$ 1,274,784	$ 1,350,788	$ 171,140	$ 167,318
NET ASSETS				
Invested in capital assets, net of related debt	$ 3,299,511	$ 3,061,169	$ -	$ -
Restricted:				
Nonexpendable:				
Endowments	-	-	386,216	345,379
Annuity and life income funds	-	-	19,962	24,842
Expendable:				
Endowments	-	-	177,379	136,714
Annuity and life income funds	-	-	16,702	16,419
Funds functioning as endowment	-	-	377,329	335,358
Grants and contracts	-	-	-	-
Gifts	135,386	118,073	153,234	156,329
Loans	40,792	38,484	-	-
Capital projects	44,522	43,371	-	-
Debt service	13,151	13,618	-	-
Appropriations	7,461	5,766	-	-
Other	54,146	50,458	-	-
Unrestricted	695,855	586,622	2,396	1,293
Total net assets	$ 4,290,824	$ 3,917,561	$ 1,133,218	$ 1,016,334

See accompanying Notes to Financial Statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(dollars in thousands)

For Fiscal Year Ended June 30, 2006, with comparative totals for 2005

	CAMPUS* 2006	CAMPUS* 2005	FOUNDATION 2006	FOUNDATION 2005
OPERATING REVENUES				
Student tuition and fees, net	$ 297,434	$ 283,964	$ -	$ -
Grants and contracts:				
Federal	601,537	586,312	-	-
State	41,473	48,386	-	-
Private	134,248	129,715	-	-
Local	32,796	28,678	-	-
Sales and services:				
Medical centers	992,385	941,850	-	-
Educational activities	435,099	427,451	-	-
Auxiliary enterprises, net	267,418	241,450	-	-
Private gifts	-	-	110,987	94,383
Other operating revenues, net	47,412	43,885	-	-
Total operating revenues	2,849,802	2,731,691	110,987	94,383
OPERATING EXPENSES				
Salaries and wages	1,789,945	1,733,890	-	-
Benefits	369,690	340,206	-	-
Scholarships and fellowships	56,424	60,948	-	-
Utilities	85,555	81,393	-	-
Supplies and materials	396,795	390,956	-	-
Depreciation	175,956	173,765	-	-
Campus foundation grants	-	-	117,728	100,523
Other operating expenses	511,563	538,008	1,412	1,086
Total operating expenses	3,385,928	3,319,166	119,140	101,609
Operating loss	(536,126)	(587,475)	(8,153)	(7,226)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	555,888	534,214	-	-
State financing appropriations	26,839	26,630	-	-
Private gifts	156,719	114,181	-	-
Investment income	-	-	80,188	42,266
Other	1,684	1,674	-	-
Net depreciation in fair value of investments	-	-	14,051	23,679
Interest expense	(24,166)	(24,292)	-	-
Loss on disposal of capital assets, net	(2,310)	(12,788)	-	-
Other nonoperating revenues (expenses)	3,401	(9,789)	(5,527)	(4,352)
Net nonoperating revenues (expenses)	718,055	629,830	88,712	61,593
Income (loss) before other change net assets	181,929	42,355	80,559	54,367
OTHER CHANGES IN NET ASSETS				
State capital appropriations	40,193	29,535	-	-
Capital gifts and grants	50,392	79,861	-	-
Permanent endowments	-	-	36,325	31,313
Transfers	102,394	130,332	-	-
Increase in net assets	374,908	282,083	116,884	85,680
NET ASSETS				
Net assets, beginning of year	3,917,561	3,635,478	1,016,334	930,654
Cumulative effect of a change in accounting principle	(1,645)	-	-	-
Net assets, end of year	$ 4,290,824	$ 3,917,561	$ 1,133,218	$ 1,016,334

See accompanying Notes to Financial Statements.

TRANSFERS

(dollars in thousands) For Fiscal Year Ended June 30, 2006, with comparative totals for 2005

	CAMPUS*	
	2006	2005
Current (to)/from loan	$ -	$ (660)
Current:		
Intrafund	-	-
Intercampus	249,420	248,150
Interfund	(92,110)	(90,759)
Net revenue of bonds and other indebtedness programs	(61,190)	(40,659)
Indirect cost recovery	(2,361)	(786)
Net adjustments	-	-
Unexpended plant	218,563	216,231
Retirement of indebtedness	(59,648)	(52,203)
Investment in plant:		
Intrafund transfer assets	47	(2,078)
Intrafund transfer depreciation	2,170	164
Renewals and replacements	-	-
Loan	739	657
Indirect cost recovery	(153,236)	(147,725)
Total transfers	$ 102,394	$ 130,332

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOWS

(dollars in thousands) For Fiscal Year Ended June 30, 2006, with comparative totals for 2005

	CAMPUS*		FOUNDATION	
	2006	2005	2006	2005
CASH FLOWS FOR OPERATING ACTIVITIES				
Student tuition and fees, net	$ 298,495	$ 283,649	$ -	$ -
Grants and contracts	795,854	808,057	-	-
Receipts from sales and services of:				
Medical centers	974,688	967,148	-	-
Educational activities	436,667	425,390	-	-
Auxiliary enterprises, net	273,005	244,583	-	-
Collection of loans from students and employees	16,313	32,252	-	-
Private gifts	-	-	124,106	99,968
Payments to employees	(1,858,695)	(1,719,288)	-	-
Payments to suppliers and utilities	(986,150)	(921,313)	-	-
Payments to OPEB	(34,345)	-	-	-
Payments for benefits	(334,311)	(341,124)	-	-
Payments for scholarships and fellowships	(56,424)	(60,948)	-	-
Loans issued to students and employees	(16,828)	(19,160)	-	-
Payments to campus and beneficiaries		-	(122,672)	(116,692)
Other receipts (payments)	37,857	(27,261)	4,056	5,189
Net cash used by operating activities	(453,874)	(328,015)	5,490	(11,535)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	555,888	534,214	-	-
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	-	-	36,325	31,313
Other private gifts	154,543	114,136	-	-
Other receipts (payments)	15,300	(26,296)	-	-
Net cash provided by noncapital financing activities	725,731	622,054	36,325	31,313
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	-	-	-	-
Payments of principal	-	-	-	-
Interest paid	-	-	-	-
State capital appropriations	49,387	29,645	-	-
State financing appropriations	12,817	12,815	-	-
Capital gifts and grants	39,009	77,907	-	-
Proceeds from debt issuance	40,338	60,585	-	-
Proceeds from the sale of capital assets	-	1,727	-	-
Purchases of capital assets	(414,789)	(431,041)	-	-
Refinancing/prepayment of outstanding debt	(5,801)	(14,811)	-	-
Principal paid on debt and capital leases	(15,697)	(15,472)	-	-
Interest paid on debt and capital leases	(16,304)	(14,841)	-	-
Net cash used by capital and related financing activities	(311,040)	(293,486)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	97,120	88,020
Purchase of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	(158,971)	(130,444)
Investment income, net of investment expenses	-	-	20,659	19,551
Net cash provided by investing activities	-	-	(41,192)	(22,873)
Cumulative effect of change in accounting principles	(1,645)	-	-	-
Intercampus transactions	-	(480)	-	-
Transfers	102,394	130,332	-	-
Net (decrease) increase in cash	61,566	130,405	623	(3,095)
Cash, beginning of year	1,096,881	966,476	837	3,932
Cash, end of year	$ 1,158,447	$ 1,096,881	$ 1,460	$ 837

See accompanying Notes to Financial Statements.

ORGANIZATION/FINANCIAL REPORTING ENTITY

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general-purpose financial statements as a component unit. Additionally, the University's consolidated financial statements, including 10 campuses, five medical centers, a statewide agricultural extension program, the University of California Retirement System and certain operational results of three major Department of Energy laboratories, are subjected to an independent annual audit.

The Los Angeles campus of the University of California was founded in 1919 and is financially the largest campus in the 10-campus University of California system. The financial statements included in this annual report present the combined activities of the Los Angeles campus, including the UCLA Medical Center. The accounts of the Los Angeles campus are subject to limited-scope procedures as a part of the annual audit of the financial statements of the entire University of California. The financial statements for the Los Angeles campus have not been individually audited.

ASUCLA's financial data for the fiscal year ended June 30, 2006, have been included in the financial statements in order to reflect total financial activity of the UCLA campus. ASUCLA conducts activities on the UCLA campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974.

The UCLA Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation are not reflected within the campus' records until such time as gifts are transferred from the foundation to the campus. However, in accordance with the statements of the Governmental Accounting Standards Board (GASB) detailed below, foundation activity is noted on the campus' financial statements.

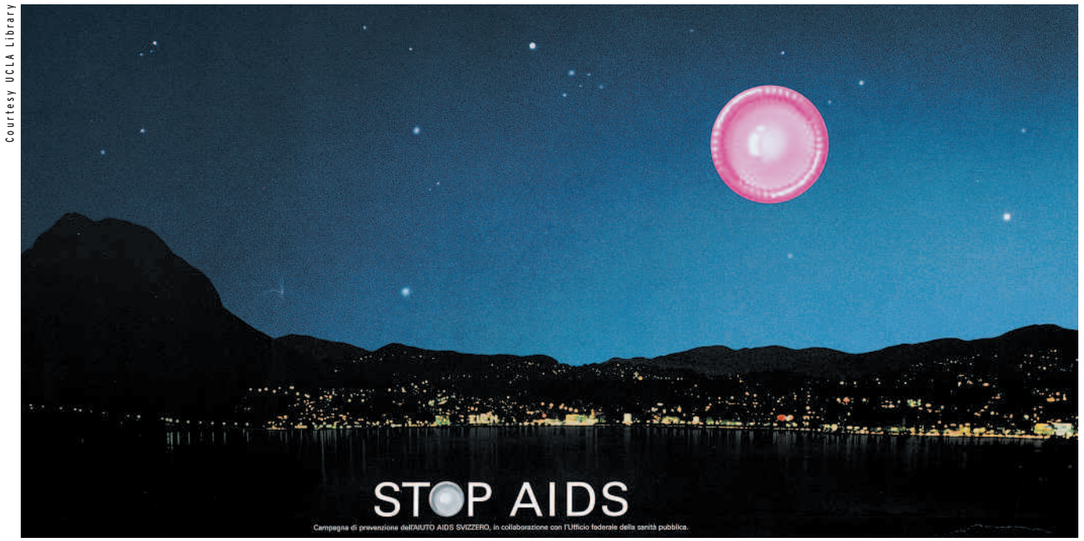
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the UCLA campus have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 47, *Accounting for Termination Benefits*, was adopted during the year ended June 30, 2006. Statement No. 47 requires benefits such as early retirement incentives or severance to employees who are involuntarily terminated to be recognized in the period the University becomes obligated to provide the benefits. Benefits provided to employees who voluntarily terminate must be recognized when the termination offer is accepted.

The effect of the implementation of GASB Statement No. 47 was not significant on the University's net assets or changes in net assets for the year ended June 30, 2006. There was no effect on the University's net assets or changes in net assets for the year ended June 30, 2005.

Courtesy UCLA Library



The Louise M. Darling Biomedical Library History and Special Collections division is home to a collection of more than 600 AIDS posters issued by a variety of institutions and organizations around the world to educate and warn people about AIDS and to offer advice and information in visual form. Among the countries represented are Australia, Austria, Canada, China, Costa Rica, France, Germany, India, Japan, Luxembourg, Martinique, the Netherlands, New Zealand, Papua New Guinea, Poland, Portugal, Spain, Switzerland, Tahiti, Uganda and the United Kingdom. An online version of the collection is available at http://digital.library.ucla.edu/aidsposters

Above: Switzerland (c. 1988)

Below: Austria (undated); a translation of the inscription reads, "Humanity is infectious. With HIV-positive people, life is not."

The significant accounting policies followed by UCLA are summarized as follows:

Cash. The University considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

Short-term investments. UCLA participates in a temporary investment pool that is administered by the Office of the President. Income earned on investments is distributed based on average investments in the pool. This pool invests primarily in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the statement of cash flows.

Investments. Investments for endowment monies and other similar funds are primarily administered centrally by the Office of the President and are not reflected on the UCLA local financial statements. These funds consist of endowments, funds functioning as endowment, and annuity and life income funds. Endowments require that the principal be invested in perpetuity, with the income used in accordance with the terms specified by the donor. Funds functioning as endowment are primarily gifts and related gains that the University treats as endowments, with the exception that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries; principal of these funds vests with the University and payments cease upon the death of the beneficiaries.

Monies are invested by the treasurer of The Regents and the income is transferred to individual campuses annually. A substantial portion of the net assets of the endowment and similar funds participates in a general endowment pool. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the end of the calendar month within which the transaction takes place. Investments include equities, high-yield equities, bonds and real estate.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts; pledges; educational activities; and amounts due from students, employees and faculty for services.

Pledges. Unconditional pledges of private gifts to the campus to be received in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods, and intentions to pledge are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided by federal student loan programs and other University sources. Home mortgage loans, primarily to faculty, are provided by the University's Short-Term Investment Pool and other University sources. Mortgage loans provided by the Short-Term Investment Pool are classified as investments, and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories are valued at cost, typically determined using the weighted average method, which is not in excess of net realizable value.

Land, infrastructure, buildings, equipment, libraries and collections. Land, infrastructure, buildings and improvements, equipment, libraries and collections, and special collections are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Capital leases are recorded at the present value of future minimal lease payments. Significant additions, replacements, major repairs and renovations are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the life of the applicable lease or the economic life of the asset, whichever is shorter.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15-33 years
Equipment	2-20 years
Computer software	3-7 years
Library books and materials	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets — such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections — are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project-related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Funds held for others. Funds held for others result from the University acting as an agent or fiduciary on behalf of organizations that are not significant or financially accountable to the University.

Federal refundable loans. Certain loans to students are administered by the campus with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Net assets. Net assets are classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the campus' capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The campus classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally imposed restrictions that must be retained in perpetuity by the University are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds. Because the Office of the President administers these funds, UCLA's local financial statements do not reflect balances for nonexpendable assets.

Expendable. Net assets whose use by the campus or campus foundation is subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, or for capital programs.

Revenues and expenses. Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the UCLA campus and medical centers are presented in the statement of revenues, expenses and changes in net assets as operating activities.

In accordance with GASB Statement No. 35, *Basic Financial Stamements — and Management's Discussion and Analysis — for Public Colleges and Universities*, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues on the foundations' statements since, in contrast to the University, such contributions are fundamental to the core mission of the foundations. When the gift is transferred from a foundation to the campus, the campus records the revenue as nonoperating revenue.

Nonoperating revenues and expenses include state educational appropriations (for the support of UCLA operating expenses); state financing appropriations; private gifts for other than capital purposes; investment income, net unrealized appreciation or depreciation in the fair value of investments; interest expense; and gain or loss on the disposal of capital assets.

State capital appropriations, and capital gifts and grants are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the campus. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The State of California provides appropriations to the University, which are allocated to the campuses on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant revenue.

Grant and contract revenue. UCLA receives grant and contract revenue from governmental and private sources. The campus recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs are at cost reimbursement rates negotiated with the University's federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2006, the facilities and administrative cost recovery totaled $155.4 million, $133.1 million from federally sponsored programs and $22.3 million from other sponsors. For the fiscal year ended June 30, 2005, the facilities and administrative cost recovery totaled $149.9 million, $129.4 million from federally sponsored programs and $20.5 million from other sponsors.

The majority of the recovery of facilities and administrative costs from contract and grant activity are transferred to the Office of the President as part of the closing process and then reallocated at a designated rate to the campus in the next fiscal year. The amount transferred for 2006 was $153.2 million; the amount transferred for 2005 was $147.7 million.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payers, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payers. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

Scholarship allowances. The campus recognizes certain scholarship allowances, which include both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc., and the amount that is paid by the student or by third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2006 and 2005 (*dollars in thousands*):

	2006	2005
Student tuition and fees	$ 105,186	$ 92,974
Sales and services of auxiliary enterprises	31,875	20,272
Scholarship allowances	$ 137,061	$ 113,246

Compensated absences. UCLA accrues annual leave for employees at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. UCLA is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Comparative information. 2005 financial information is included as comparative values to the 2006 presentation.

1. CASH

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. At June 30, 2006 and 2005, the carrying amount of UCLA's equity in the Treasurer's investment, transferred to the Treasurer's Office as part of the University's investment, was $1.13 billion and $1.07 billion, respectively, compared with bank balances of $26.7 million and $24.9 million, respectively. The timing of deposits in transit, varying from year to year, is the primary difference.

2. INVESTMENTS HELD BY TRUSTEES

UCLA has entered into agreements with trustees to maintain trusts for long-term debt requirements. All investments held by trustees are insured, registered or held by the campus' trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Noncurrent investments held by trustees are for future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was $20.9 million and $61.6 million at June 30, 2006 and 2005, respectively. The decrease of $40.5 million is attributed to state public works bonds transferred mainly for the replacement hospitals.

UCLA's deposits into the trusts, or receipts from the trust, are classified as a capital and related financing activity in the statement of cash flows as it is related to long-term debt requirements. Investment transactions initiated by trustees in conjunction with the management of the trust assets and payments from the trust to third parties are not included in the campus' statement of cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2006 and 2005, are as follows (*dollars in thousands*):

	STATE & FEDERAL GOVERNMENT	MEDICAL CENTERS	OTHER	TOTAL
At June 30, 2006				
Accounts receivable	$ 82,629	$ 241,032	$ 136,993	$ 460,654
Allowance for uncollectible amounts	(-)	(43,346)	(8,085)	(51,431)
Accounts receivable, net	$ 82,629	$ 197,686	$ 128,908	$ 409,223
At June 30, 2005				
Accounts receivable	$ 80,387	$ 224,104	$ 132,973	$ 437,464
Allowance for uncollectible amounts	(-)	(44,115)	(7,651)	(51,766)
Accounts receivable, net	$ 80,387	$ 179,989	$ 125,322	$ 385,698

(Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees, and auxiliary enterprises.)

4. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2006 and 2005 is summarized as follows (*dollars in thousands*):

	2006	2005
Total pledges receivable outstanding	$ 10,904	$ 17,091
Less: Unamortized discount to present value	(1,034)	(864)
Allowance for uncollectible pledges	(266)	(-)
Total pledges receivable, net	9,604	16,227
Less: Current portion of pledges receivable	(3,298)	(6,290)
Noncurrent portion of pledges receivable	$ 6,306	$ 9,937

5. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2006 and 2005, along with allowances for uncollectible amounts, are as follows (*dollars in thousands*):

		NONCURRENT		
	CURRENT	NOTES	MORTGAGES	TOTAL
At June 30, 2006				
Notes and mortgages receivable	$ 7,058	$ 53,610	$ 7,222	$ 67,890
Allowance for uncollectible amounts	(605)	(1,607)	(115)	(2,327)
Notes and mortgages receivable, net	$ 6,453	$ 52,003	$ 7,107	$ 65,563
At June 30, 2005				
Notes and mortgages receivable	$ 10,721	$ 40,225	$ 16,538	$ 67,484
Allowance for uncollectible amounts	(687)	(1,819)	(77)	(2,583)
Notes and mortgages receivable, net	$ 10,034	$ 38,406	$ 16,461	$ 64,901

6. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

The campus' capital asset activity for the years ended June 30, 2006 and 2005, is as follows (*dollars in thousands*):

	2004	ADDITIONS	DISPOSALS	2005	ADDITIONS	DISPOSALS	2006
ORIGINAL COST							
Land	$ 80,207	$ -	$ -	$ 80,207	$ -	$ -	$ 80,207
Infrastructure	7,754	-	-	7,754	-	-	7,754
Buildings and improvements	2,550,699	74,459	(314)	2,624,844	333,699	-	2,958,543
Equipment	872,542	62,654	(96,977)	838,219	67,612	(74,663)	831,168
Libraries and collections	453,650	13,320	-	466,970	19,717	-	486,687
Special collections	55,014	3,313	-	58,327	2,855	(7)	61,175
Construction in progress	1,225,050	340,307	-	1,565,357	10,926	-	1,576,283
Capital assets, at original cost	$ 5,244,916	$ 494,053	$ (97,291)	$ 5,641,678	$ 434,809	$ (74,670)	$ 6,001,817

	2004	DEPRECIATION & AMORTIZATION	DISPOSALS	2005	DEPRECIATION & AMORTIZATION	DISPOSALS	2006
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 5,444	$ 201	$ -	$ 5,645	$ 200	$ -	$ 5,845
Buildings and improvements	1,110,590	79,692	(251)	1,190,031	85,953	-	1,275,984
Equipment	531,740	79,761	(82,688)	528,813	75,811	(74,531)	530,093
Libraries and collections	331,304	14,111	-	345,415	13,992	-	359,407
Accumulated depreciation and amortization	$ 1,979,078	$ 173,765	$ (82,939)	$ 2,069,904	$ 175,956	$ (74,531)	$ 2,171,329
Capital assets, net	$ 3,265,838			$ 3,571,774			$ 3,830,488

7. DEBT

The University may finance the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Commercial paper provides for interim financing, which is accounted for on a systemwide basis. Long-term financing includes revenue bonds, certificates of participation, mortgages and other borrowings, and capital lease obligations.

UCLA's outstanding debt at June 30, 2006 and 2005, is as follows (*dollars in thousands*):

	INTEREST RATES	MATURITY YEARS	2006	2005
LONG-TERM FINANCING				
Hospital Revenue Bonds Series 2002 & 2005	2.0 - 5.5%	2007 - 2039	$ 296,549	$ 297,565
Mortgages and other borrowings	5.575 - 6%	2007 - 2008	57,423	38,953
Capital lease obligations - state lease revenue bonds	1.25 - 5.25%	2007 - 2022	155,430	193,394
Capital lease obligations	2.95 - 9.75%	2007 - 2011	41,742	45,695
Total long-term outstanding debt			$ 551,144	$ 575,607

Outstanding Debt Activity

Activity with respect to the campus' current and noncurrent debt for the years ended June 30, 2006 and 2005, is as follows (*dollars in thousands*):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
Year Ended June 30, 2006				
Current portion at June 30, 2005	$ 1,016	$ 32	$ 19,711	$ 20,759
Reclassification from noncurrent	5,437	5,838	22,666	33,941
Principal payments	(1,016)	(5,834)	(21,120)	(27,970)
Current portion at June 30, 2006	5,437	36	21,257	26,730
Noncurrent portion at June 30, 2005	296,549	38,922	219,378	554,849
New obligations	-	24,303	(20,797)	3,506
Reclassification to current	(5,437)	(5,838)	(22,666)	(33,941)
Noncurrent portion at June 30, 2006	291,112	57,387	175,915	524,414
TOTAL	$ 296,549	$ 57,423	$ 197,172	$ 551,144
Year Ended June 30, 2005				
Current portion at June 30, 2004	$ 900	$ 30	$ 19,650	$ 20,580
Reclassification from noncurrent	1,016	14,844	20,834	36,694
Principal payments	(900)	(14,842)	(20,773)	(36,515)
Current portion at June 30, 2005	1,016	32	19,711	20,759
Noncurrent portion at June 30, 2004	297,566	15,089	202,052	514,707
New obligations	(1)	38,676	38,160	76,835
Reclassification to current	(1,016)	(14,844)	(20,834)	(36,694)
Noncurrent portion at June 30, 2005	296,549	38,921	219,378	554,848
TOTAL	$ 297,565	$ 38,953	$ 239,089	$ 575,607

Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of the University. They have annual principal and semiannual interest payments, and serial and term maturities; they contain sinking fund requirements and may have optional redemption provisions.

Revenue bonds for medical centers and auxiliary enterprises are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of the University's share of facilities and administrative rate recoveries received on federal research grants and contracts performed by the University. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents.

The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues, after expenses and requirements for senior lien indentures, equal to 1.25 times debt service and to maintain certain other financial covenants. The Hospital Revenue Bonds require the University to achieve net revenues of 1.1 times to 1.2 times debt services (depending on the indenture); set limitations on encumbrances, indebtedness, disposition of assets and transfer services; and maintain certain other financial covenants. The Multiple Purpose Projects Revenue Bond and Hospital Revenue Bond indentures require the University to use the facilities in a way that will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

Mortgages and Other Borrowings

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property.

As part of the University, UCLA may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper to provide interim financing for buildings and equipment. Line-of-credit commitments, with various expiration dates through 2008, totaled $99.5 million at June 30, 2006. Outstanding borrowing under these bank lines totaled $57 million and $39 million at June 30, 2006 and 2005, respectively, and is included in mortgages and other borrowings.

Capital Leases

Capital leases entered into with other lessors, primarily for the replacement hospital and equipment, totaled $197 million in 2006, down from $239 million in 2005. The majority of that amount, $155 million, is attributed to State Lease Revenue Bonds issued to finance the UCLA replacement hospitals in Santa Monica and Westwood; the bonds mature in 2022.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2006, and thereafter are as follows (*dollars in thousands*):.

Year Ending June 30	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	TOTAL PAYMENTS	PRINCIPAL	INTEREST
2007	$ 19,497	$ -	$ 38	$ 13,794	$ 16,207	$ 49,536	$ 26,298	$ 23,238
2008	19,469	-	57,835	13,816	15,064	106,184	83,343	22,841
2009	21,744	-		13,778	9,376	44,898	23,323	21,575
2010	48,903	-	-	13,766	2,502	65,171	45,041	20,130
2011	19,734	-	-	13,744	760	34,238	15,490	18,748
2012-2016	98,660	-	-	68,555		167,215	85,580	81,635
2017-2021	98,649	-	-	68,165	-	166,814	110,980	55,834
2022-2027	53,827	-	-	27,200	-	81,027	50,140	30,887
2027-2031	53,829	-	-	-	-	53,829	31,405	22,424
2032-2036	53,825	-	-	-	-	53,825	40,260	13,565
2037-2041	32,300	-	-	-	-	32,300	29,320	2,980
Total future debt service	520,437	-	57,873	232,818	43,909	855,037	$ 541,180	$ 313,857
Less interest component of future payments	233,852	-	450	77,388	2,167	313,857		
Principal portion of future payments	286,585	-	57,423	155,430	41,742	541,180		
Deferred premium - Medical Center	9,964	-	-	-	-	9,964		
Total long-term outstanding debt	$ 296,549	$ -	$ 57,423	$ 155,430	$ 41,742	$ 551,144		

(Future payments in which UCLA participates, but not included above, are the systemwide state capital leases that are held at the Office of the President. The principal portion totals $165.2 million, and interest $82.2 million, through 2024.)

8. SELF-INSURANCE AND OTHER LIABILITIES

UCLA's other liabilities, primarily employee leave and other compensated absences with similar characteristics and accrued interest, at June 30, 2006 and 2005, are as follows (*dollars in thousands*):

	2006 CURRENT	2006 NONCURRENT	2005 CURRENT	2005 NONCURRENT
Other liabilities:				
Compensated absences	$ 45,043	$ 83,311	$ 40,375	$ 86,573
Accrued interest	3,238	-	3,284	-
Other	49,595	44	25,182	-
Total	$ 97,876	$ 83,355	$ 68,841	$ 86,573

Self-Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded on a systemwide basis when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCLA's statement of revenues, expenses and changes in net assets. UCLA's financial statements do not reflect any liability amounts for self-insurance claims as these estimated liabilities are recorded on a systemwide basis.

Other Noncurrent Liabilities

Activity with respect to other noncurrent liabilities for the years ended June 30, 2006 and 2005, is as follows (*dollars in thousands*):

	COMPENSATED ABSENCES
Year Ended June 30, 2006	
Liabilities at June 30, 2005	$ 86,573
New obligations	33,738
Reclassification to current	(37,300)
Liabilities at June 30, 2006	$ 83,311
Year Ended June 30, 2005	
Liabilities at June 30, 2004	$ 78,781
New obligations	41,092
Reclassification to current	(33,300)
Liabilities at June 30, 2005	$ 86,573

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises and endowment income, or other revenue sources that support the employee's salary.

9. ENDOWMENTS AND FOUNDATION GIFTS

The Regents' Endowments

Endowments are administered either by the University or by campus foundations. The financial activities of the separately incorporated campus foundations are not included in the University's financial statements until such time as gifts are transferred from the campus foundations to the University.

The endowments held by The Regents are administered on a systemwide basis, and related investments are not reflected on UCLA's separate financial statements.

The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based on a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents to UCLA was $29.5 million and $29.1 million for the years ended June 30, 2006 and 2005, respectively.

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fund-raising, public outreach and other support for the missions of the campus and the University. Although independent boards govern The UCLA Foundation, its assets are dedicated for the benefit of UCLA.

During the years ended June 30, 2006 and 2005, gifts of $95.8 million and $79.4 million, respectively, were transferred to UCLA from The UCLA Foundation. At June 30, 2006, The UCLA Foundation's net assets were $1.13 billion.

10. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2006 and 2005, are as follows (*dollars in thousands*):

	2006	2005
Instruction	$ 869,486	$ 851,368
Research	574,872	555,235
Public service	67,482	68,275
Academic support	257,666	253,578
Student services	58,775	57,124
Institutional support	114,488	104,923
Operations and maintenance of plant	74,468	76,337
Student financial aid	58,528	67,329
Medical centers	906,671	905,338
Auxiliary enterprises	206,510	193,064
Depreciation	175,956	173,765
Other	21,026	12,830
Total operating expenses	$ 3,385,928	$ 3,319,166

11. THE RETIREMENT PLAN

Most University employees participate in the University of California Retirement System (UCRS). The UCRS consists of a single-employer defined benefit plan funded by University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP) and two defined contribution plans with several investment portfolios funded by employee non-elective and elective contributions. The Board of Regents is the trustee for all UCRS and PERS-VERIP funds. Accordingly, these funds are separately identified in the systemwide annual financial report.

12. COMMITMENTS AND CONTINGENCIES

Commitments

Amounts committed but unexpended for construction projects totaled $504.7 million and $643.4 million at June 30, 2006 and 2005, respectively.

UCLA leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2006 and 2005, were $41.3 million and $43.9 million, respectively. The terms of operating leases extend through February 2022.

Future minimum payments on operating leases with initial or remaining noncancelable terms in excess of one year are as follows (*dollars in thousands*):

YEAR ENDING JUNE 30	MINIMUM ANNUAL LEASE PAYMENTS
2007	$ 26,742
2008	23,125
2009	19,953
2010	14,803
2011	10,682
2012-2016	8,977
2017-2021	69
2022-2026	9
Total	$ 104,358

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's or UCLA's separate financial positions.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's or UCLA's separate financial positions.

The UCLA 2005-2006 Annual Financial Report was prepared by
the Corporate Accounting Division of Corporate Financial Services and
produced by University Communications of the University of California, Los Angeles
with a special thanks to Dawn Setzer, Director of Library Communications.

Additional copies of this report are available from University of California, Los Angeles Corporate Accounting
10920 Wilshire Boulevard, 5th floor, Los Angeles, CA 90024-6502
Attention: Terri Kirkman e-mail: TKirkman@finance.ucla.edu
www.accounting.ucla.edu

Art Director/designer, Wanda Decca. Copy editing, Todd Schindler. Charts & pies, Valentin Sahleanu.

Courtesy UCLA Library

Estelle Ishigo (1899–1990), a Caucasian, voluntarily accompanied her Japanese American husband, Arthur, into internment camps during World War II. She documented life at the Heart Mountain Relocation Camp in Wyoming through her artwork. Her collection, held in the Charles E. Young Research Library Department of Special Collections, consists of documents, records, correspondence, photographs, paintings, pencil drawings and sketches, and watercolor sketches. The materials were used by filmmaker Steven Okazaki to make "Days of Waiting," which won the Academy Award for short-subject documentary in 1991. Many of the artworks have been digitized and can be viewed online at http://hamachi.library.ucla.edu/ishigo

Above: *Gathering coal at Heart Mountain Relocation Camp*, 1945

Below: *A stormy day*, September 1944

notes to financial statements